

# Requesting and Managing FSA Funds

## CHAPTER 1

*Except for funds received as an administrative cost allowance (ACA), FSA funds received by a school are held in trust by the school for students and the Department. The cash management regulations discussed in this chapter establish rules and procedures that a school must follow in requesting and managing FSA Program funds. These rules and procedures also apply to third-party servicers.*

### PURPOSE OF CASH MANAGEMENT REGULATIONS

The cash management regulations are intended to:

- ♦ promote sound cash management of FSA program funds by schools;
- ♦ minimize the costs to the government of making FSA program funds available to students and schools; and
- ♦ minimize the costs to students who receive FSA loans.

Except for funds received for an administrative cost allowance (ACA) or for a Job Location and Development Program under the FWS Program, all FSA program funds received by a school are held in trust by the school for students and the Department. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

To ensure adequate cash management practices, a school must have in place a cash management system that adheres to federal regulations and other standards. A school's cash management practices are governed by –

- ♦ Generally Accepted Accounting Principles (GAAP);
- ♦ standards prescribed by the federal Office of Management and Budget (OMB);
- ♦ U.S. Department of Treasury regulations; and
- ♦ U.S. Department of Education (ED/the Department) regulations.

#### Cash management

34 CFR Subpart K

#### Purpose of regulations

34 CFR 668.161

#### Self-assessment Tool For Fiscal Management

You can evaluate your school's procedures by referring to "Fiscal Management" in the Managing Funds module of FSA Assessments at:  
<http://ifap.ed.gov/qahome/qaassessments/fiscalmanagement.html>.

## EDCAPS AND G5

### EDCAPS

#### Am I a grantee or a payee?

A **grantee** (not a person) is an entity that applies for and receives a grant award from the Department. The grantee is responsible for ensuring the grant is administered in accordance with program regulations.

A **payee** is an entity (designated by the grantee) to request and manage federal funds on its behalf. The grantee and payee can be the same entity.

The *Education Central Automated Processing System (EDCAPS)* is designed to integrate the Department's financial processes, including financial management, contracts and purchasing, grants administration, and payment management.

EDCAPS integrates four formerly separate system modules into a single system. EDCAPS consists of the following:

- ♦ Financial Management Systems Software;
- ♦ Travel Management;
- ♦ Contracts and Purchasing Support System; and
- ♦ Grant Management System (G5)<sup>1</sup>.

G5 is the EDCAPS module that directly affects schools' participation in the FSA programs and the only part of EDCAPS to which schools have access.

### G5 Overview

G5 is a delivery system that supports program award and payment administration. G5 provides financial management support services for the grant life cycle in a single system. It supports the planning, obligating, authorizing, disbursing, and final closing of Department of Education grant awards.

G5 is the central repository for payment transactions of schools that receive cash from the Department through the Office of the Chief Information Officer (OCIO). G5 is a system; OCIO is the office within the Department that administers the system.

Schools may use G5 to request payments, adjust drawdowns, and return cash. G5 also provides continuous access to current grant and payment information, such as authorized amounts, cumulative drawdowns, current award balances, and payment histories.



Every user must register to gain access to G5. There is no limit to the number of users an entity or organization may have with access to G5. Business officers and financial aid administrators are encouraged to use G5 to help reconcile FSA funds.

#### Access to G5

G5 can be accessed through the Internet at the G5 Web page

**[www.G5.gov](http://www.G5.gov)**

The G5 Help Desk phone number is

**1-888-336-8930**

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1. \*G5 controls cash for both FSA and non-FSA Title-IV programs.

A school uses G5 to request cash for –

- ♦ the Federal Pell Grant Program,
- ♦ the TEACH Grant Program,
- ♦ the Federal Supplemental Educational Opportunity Grant (FSEOG) Program,
- ♦ the Federal Work-Study (FWS) Program,
- ♦ the Federal Perkins Loan Program, and
- ♦ the Direct Loan Program.

### Accessing G5

Schools request federal cash electronically using G5. To request cash, a school must access G5 via the Internet at [www.G5.gov](http://www.G5.gov).

Before you can use G5, and as part of applying for Title IV participation, your school must register with the Department. This process includes:

1. obtaining a Data Universal Numbering System (D-U-N-S) number;
2. obtaining a Grant Award Number;
3. setting up Bank Information;
4. registering the D-U-N-S and Taxpayer Identification Number (TIN) with the System for Award Management (SAM) at <https://www.sam.gov/portal/public/SAM/>; and
5. obtaining User ID(s) and Password(s).

### Setting up bank information

Funds requested from G5 will be transmitted to the payee's bank account using either the Automated Clearing House (ACH) or the FEDWIRE transmission method. A payee designates its method of transmission when providing its bank account information.

### ACH

For payees using ACH, G5 electronically transfers payments through the U.S. Department of the Treasury into the payee's bank account.

To use ACH you must enroll with the Office of the Chief Information Officer, Department of Education. To enroll, you complete a Direct Deposit Sign-Up Form (SF1199A) and send it to the Department.

The form is located on the G5 home page in the Frequently Asked Questions (FAQs). Look under the Banking section and then find the subheading *Domestic*. The SF1199A is the first bullet point.

### What is a TIN?

The TIN is the federal tax Identification number given to the grantee organization. The TIN is the unique nine-digit number the organization uses to report activity to the Internal Revenue Service. In other words, the TIN is the grantee's social security number.

### What is a D-U-N-S number?

The Data Universal Numbering System (or D-U-N-S Number) is a unique nine-digit identification code that is assigned to a school. G5 grantees and payees must register their D-U-N-S number and TIN with the System for Award Management (SAM).

You can acquire a D-U-N-S number by calling Dun & Bradstreet at 1-800-333-0505 or by completing a D-U-N-S-Number Request Form. The form can be obtained via the Internet at

<https://eupdate.dnb.com/requestoptions.asp>

The D-U-N-S number represents your school as a unique financial entity. You must notify the Department if your school merges with another organization, is sold to another organization, or separates from an existing organization and becomes a freestanding organization.

### What is a grant award number?

The grant award number is a unique, 11-character "number" that identifies each grant award issued by a specific program office to a specific grantee. **All funds are requested (and returned) using the Grant Award Number.**

The following is an example of a Grant Award Number and an explanation of the parts that make up the number:

#### P031B141234

<b>P</b>	Program Office issuing the award
<b>031</b>	Catalog of Federal Domestic Assistance (CFDA) numeric suffix of the program
<b>B</b>	Alphabetic subprogram identifier
<b>14</b>	The trailing year in the academic year for DL and TEACH and the beginning year in the academic year for Pell and all other awards.
<b>1234</b>	Unique identifier

**Example of Prefixes to Grant Award Numbers**

P007A	FSEOG
P033A	FWS
P063P	Pell
P268K	DL



Title IV funds are program and award year specific.

- P063P13#### is the award for 2013–2014 Pell funds.
- P268K14#### is the award for 2013–2014 Direct loan funds. Note that DL uses trailing years as the award year indicator.

“####” represents a school’s unique four digit G5 ID.

**System for Award Management**

The System for Award Management (SAM) is a free website that consolidates the capabilities you used to find in Central Contractor Registration (CCR), Online Representations and Certifications Application (ORCA), Federal Agency Registration (FedReg), and Excluded Parties List System (EPLS).

If you had an active record in CCR, you have an active record in SAM. You can search for registered entities in SAM by typing the DUNS number or business name into the search box.

**You must reenroll in ACH when any of the following occur:**

**TIP**

1. you change banks;
2. the payee or its bank changes the account number;
3. the depositor account is closed; or
4. the bank closes—either voluntarily or involuntarily.

**ACH processing times**

ACH payment requests made before 3:00 p.m. Eastern Time (ET) are deposited the next business day. ACH payment requests made after 3:00 p.m. ET are deposited on the second business day. You can enter payment requests up to 30 days in advance.

You should always verify deposits before disbursing cash. When verifying ACH payments, you must tell the bank to check for deposits made through the Automated Clearing House. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

**FEDWIRE**

The FEDWIRE transmission method is an electronic wire transfer of cash directly from G5 through the U.S. Department of Treasury into the payee’s bank account. Large payees generally use this payment method. Most banks charge a fee for processing FEDWIRE payments.

Before a payee can receive FEDWIRE payments, the payee must enroll with the Office of the Chief Information Officer in the Department of Education. If the bank is online with the U.S. Department of Treasury, you must send the Department a letter containing the:

- ♦ name and address of the payee’s bank;
- ♦ bank’s ABA number;
- ♦ contact (name and telephone number at the bank); and
- ♦ depositor’s account number at that school, and the bank’s telegraphic abbreviation.

If the bank is not online with the U.S. Department of Treasury, send the Department a letter containing the following:

- ♦ name of the payee’s bank; and
- ♦ payee’s account number at the bank

**You must reenroll in FEDWIRE (by sending the Department a letter) if any of the information listed above changes.** Payees may obtain a FEDWIRE enrollment form letter by contacting the G5 Hotline at 1-888-336-8930.

**TIP**

## FEDWIRE processing time

Payees may request FEDWIRE payments using the G5 Hotline. Payment requests completed by 2:00 p.m. ET will be deposited in the payee's bank account the same day. FEDWIRE payment requests made after 2:00 p.m. ET will be deposited the next business day.

You should always verify deposits before disbursing cash. When verifying FEDWIRE payments, you must tell the bank to check for deposits made through the FEDWIRE. There are several kinds of electronic fund transfers. If other terms are used, the bank may search for the wrong payment(s).

## Obtaining a user ID and password

Individual authorized users must register for a G5 user ID and password. To obtain a user ID, an individual must complete a *G5 Production System External User Access Request Form*. The form is generated during the online registration process.

You can also download the form at <http://www.G5.gov>. You can register for a user ID and password by following these instructions.

1. The first step in registering after reaching [www.g5.gov](http://www.g5.gov) is to click on the “Not registered? Sign up” link.
2. Complete all necessary steps in the external user registration process.
3. Once you have completed registration, you will receive an email to activate the account. Follow the email instructions to finalize the user ID and password registration.

If you do not receive an activation email you must contact the G5 Help Desk at 1-888-336-8930.

Please note that your G5 user ID will be your email address. You can recover a forgotten user ID or password on the G5 website by clicking on the Forgot Email ID or Password on the home page of G5.

## Using the user ID and password

User IDs and passwords are required to gain access to G5 or to request cash through the G5 Hotline. (Note: To enhance G5 security, payees are required to enter or state additional identifiers to gain access to G5.) You will be requested periodically to validate every user ID assigned to your organization. You are responsible for ensuring that this information is correct.

Once a grantee receives a grant (or is authorized funding), the designated payees will request cash by Grant Award Number using G5. Alternatively, payees can also call the G5 Hotline between 8 a.m. and 6 p.m. Eastern Time (ET) to request cash. A school may also call the G5 Hotline for help resolving problems with payments.

## Projecting cash needs

### Immediate Need

Immediate need is defined as the amount of FSA program funds a school needs to make disbursements within three business days following the date the school receives the funds. **This definition of immediate need applies to all FSA program funds (other than Perkins Loan funds), regardless of whether the school draws down funds by electronic funds transfer (EFT) through the ACH or through FEDWIRE.** Drawing down amounts beyond immediate need may result in excess cash, and there are penalties for holding excess cash. Schools should carefully review the excess cash tolerances regulation. (See the discussion of excess cash later in this chapter.)

#### Excess cash

34 CFR 668.166

#### Three-day rule for funds received under the advanced payment method

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

Cite: 34 CFR 668.162(b)(3)

For further information on processing and managing FSA funds, please see chapters 2 through 5.

#### Federal Capital Contribution (Perkins)

Congress has not authorized any Federal Capital Contribution (FCC) through the 2013–2014 application year.

A school on the advance payment method must determine the amount of funds it needs before it transmits a request to G5. The amount requested must be limited to the amount needed to make immediate disbursements so excess funds do not exist after disbursements are made. The amount should be enough to meet:

- ♦ Federal Pell Grant, Iraq and Afghanistan Service Grant, and TEACH Grant disbursements to students;
- ♦ the federal share of Federal Supplemental Educational Opportunity Grant (FSEOG) disbursements to students and, if it applies, an administrative cost allowance (ACA);
- ♦ the federal share of Federal Work-Study (FWS) payroll disbursements and, if it applies, ACA;
- ♦ the federal share of Federal Perkins Loan disbursements and, if it applies, ACA; and
- ♦ Federal Direct Loan disbursements.

In general, the following equation may be used to calculate projected immediate needs:

$$\begin{array}{r}
 \text{Anticipated Disbursements} \\
 \text{minus Balance of Cash on Hand} \\
 \text{minus Anticipated Recoveries} \\
 \text{minus ACH/EFT Cash in Transit} \\
 \hline
 \text{equals Projected Immediate Need}
 \end{array}$$

A school's request for funds should not exceed its immediate need.



### Timing issues

When a school initiates a drawdown from G5, it should consider that processing requests within G5 typically takes one to three business days and consider whether the school is using ACH/EFT or FEDWIRE. Schools should also be aware of system downtime, federal holidays, and other delays in processing cash requests when determining immediate need.

### Recording payments

Payees should keep records of submitted payment requests. The amount of each request and the corresponding control number(s) need to be carefully documented. These records will serve as an audit trail and help payees reconcile their books to the G5 Activity Report.

### Delayed, denied, or reduced payment requests

Your payment requests may be delayed, denied, or reduced if any of the following occurs:

- ♦ an award included in your payment request is flagged for review and approval;
- ♦ the Department's accounts receivables unit has entered an offset against one or more of the awards;
- ♦ a program office has intervened as a result of a program review or audit finding.

## AWARD PERIODS

Before you can request cash, you must understand the award periods for G5 program authorizations. The length of the award periods vary by program and authorizing statute. The award period dictates when the payee can request cash. There are four award periods:

1. performance period
2. liquidation Period
3. suspension period
4. closeout period

For all FSA programs, the length of the periods are as follows:

1. Performance period – 59 months
2. Liquidation period – 1 month
3. Suspension period – 1 month
4. Closeout period – the period that follows the suspension period



### *Performance period*

The performance period is the period between the Title IV program award begin date and the Title IV program end date. During this period, schools can draw down cash. Before drawing down cash, schools must obligate that cash to eligible recipients (such as by submitting to the Department's disbursement records for students eligible for the Federal Pell Grant Program).

During this period:

- ♦ payees may request payments;
- ♦ payees may modify payment requests (Note that, If a change needs to be made after the payment is out of Ready for Scheduling status, the user would have to return funds, create an adjustment or create another payment request);
- ♦ payees may adjust drawdowns; and
- ♦ changes may be made to the Federal Student Aid (FSA) program's grant awards authorizations.

### *Liquidation Period*

The liquidation Period is one month and follows the performance period and it is the first closeout phase. During the liquidation period –

- ♦ no new expenditures may be processed against a grant award;
- ♦ payees can draw down funds for obligations incurred during the performance period; and
- ♦ payees may use the period to adjust drawdowns for expenditures incurred during the performance period.

The last date a school can draw down cash from the Department without special permission from the program office is the end of the liquidation period. Once the performance period ends, the closeout process begins.

### *Suspension period*

The suspension period is also **one month** and follows liquidation. Once an FSA program has entered the suspension period, no payment actions can take place without the approval of the program office. The Department program offices use this period to prepare for final closeout.

**The Closeout Process includes the liquidation, suspension, and closeout periods**

### *Closeout period*

The closeout period immediately follows the suspension period. During closeout, the grant award is closed and any remaining cash is deobligated.



## DRAWING DOWN FSA FUNDS

A school's **authorization** is the amount of FSA funds a school is currently eligible for in the year and program in question. The authorization is called the Current Funding Level (CFL). Please note that in Direct Loan and TEACH Grant programs, you might also hear the authorization referred to as the Cash Control Amount (CCA).

A school's **available balance** is the amount of cash available for a school to draw down through G5. The available balance is the difference between the authorized amount and the school's net drawdowns to date. A separate authorization is maintained for each program by award year.

A school may not request more funds than it needs to make disbursements to eligible students and parents. Therefore, a school must make the disbursements as soon as administratively feasible but no later than three business days following the date the school receives those funds.

If G5 accepts a school's request for funds, it will make an EFT of the amount requested to a bank account designated by the school.

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**Three-day disbursement required**

34 CFR 668.162(b)(3)

### *Drawing down funds in the Direct Loan Program*

Generally, schools under the Advanced Payment method receive Initial Direct Loan authorizations in late spring or early summer (prior to July 1). Initial authorizations are based on a school's net accepted and posted disbursements from the previous award year. A School Account Statement (SAS) is delivered to schools immediately following the first full weekend of the month, with data through the end of the previous month. The SAS is transmitted to each school's Student Aid Internet Gateway (SAIG) mailbox.

As a school submits actual **Disbursement Release Indicator** (where DRI=true) Direct Loan disbursement records, the COD System will compare the total net accepted and posted disbursements to the school's current authorization. Each time the school's total net accepted and posted disbursements exceed the school's authorization, the COD system will automatically increase the schools authorization to the school's total net accepted and posted disbursements.

### Iraq & Afghanistan Service Grant disbursements

For the Iraq & Afghanistan Service Grant Program, schools will not submit actual disbursements in the 2013–2014 award year. In the Iraq & Afghanistan Service Grant Program, the Department will provide schools with an “Exception-Based Process” through which schools will be funded when they submit anticipated disbursements (where DRI = False).

### Supplemental Campus-Based allocations

Schools can return unused prior year Campus Based funds and request funds for the upcoming year through the **Reallocation - Supplemental award process**. Schools deobligate or request additional funds by completing the Reallocation form (the Department Form E40-4P), due the third Friday in August.

The Department will notify schools of any supplemental funding during the month of September.

## Drawing down funds in the Pell and TEACH Grant programs

There are no Initial Authorizations in the Pell Grant and TEACH Grant programs. A school’s authorization for these programs will be based on the total actual (DRI=true) accepted and posted disbursement records accepted by the COD System. A new Electronic Statement of Account ESOA will be sent to a school’s SAIG mailbox each time the school’s authorization changes.



## Drawing down funds in the Campus-Based Programs

The Department awards Campus-Based funds to a school for an upcoming award year on the basis of *The Application to Participate* portion of the *The Fiscal Operations Report and Application to Participate* (FISAP). The way in which schools request Campus-Based funds from G5 will vary depending on the funding method under which schools operate. In all cases, a school may not request funds in excess of the actual disbursements it has made or will make to students (plus any Administrative Cost Allowance, if applicable).

Note: For the Campus-Based programs, schools do not report individual disbursements in COD. Schools report expenditures on their FISAP expenditure reports (due before October 1). Therefore, a school’s allocation of Campus-Based funds is not revised during the year unless the school receives a supplemental allocation (see sidebar).

See *Volume 6* for more information on applying for and receiving Campus-Based funding.

## Funding methods

Cite: 34 CFR 668.162, except as noted.

### The Advance Payment method

Under the Advance Payment method, once a school’s funding levels have been established, a school may request (through the school’s COD Customer Service Representative) a funding level increase.

### Receiving funds under Heightened Monitoring

After the 2012–2013 award year, schools that receive funds under the Reimbursement, Heightened Cash Monitoring 1 (HCM1), or Heightened Cash Monitoring 2 (HCM2) funding method will not receive an initial authorization of Direct Loan funds. After the 2012–2013 award year, those schools will receive an authorization for Direct Loan funds after the COD system has accepted and posted actual disbursement records.



## Heightened Cash Management

The Department places a school on Reimbursement and Heightened Cash Monitoring (HCM) if it determines there is a need to more closely monitor the school's participation in the FSA programs. Under Reimbursement and Heightened Cash Monitoring 2 (HCM2), the Department releases funds to a school after the school has made the disbursement to the student (or parent borrower).

A school on the Reimbursement or HCM2 funding method must complete and submit Standard Form 270 with each request for reimbursement. (Note that a school may only submit one such request for reimbursement during any 30-day period.)

If a school is placed on reimbursement or HCM2, its administration of the Reimbursement or Cash Monitoring payment method must be audited every year. The independent auditor engaged by the school to conduct its annual compliance audit must express an opinion in the audit report regarding the school's compliance with the reimbursement or cash monitoring requirements, as applicable.

### Reimbursement payment method

A school on Reimbursement must first disburse FSA program funds to eligible students and parents before it can request those funds from the Department. As part of its request, a school that has been placed on Reimbursement must:

- identify the students and parents for whom it is seeking reimbursement; and
- submit documentation demonstrating that each student and parent included in the request was eligible to receive, and received, FSA funds.

After the reimbursement request is approved, the Department transfers electronically the appropriate amount of FSA funds to the bank account in which the school maintains its federal funds.

### Cash monitoring payment methods

Unlike the Reimbursement payment method where a school must provide detailed documentation for each student to whom it made a disbursement, the Department may relax the documentation requirements under Cash Monitoring payment method and provide funds to a school in one of two ways:

1. **Heightened Cash Monitoring 1 (HCM1).** After a school makes disbursements to eligible students, it draws down FSA funds to cover those disbursements in the same way as a school on the advance payment method.
2. **Heightened Cash Monitoring 2 (HCM2).** After a school makes disbursements to eligible students, it submits only the documentation specified by the Department. The Department may tailor the documentation requirements for schools on a case-by-case basis.

**Maintaining and accounting for funds**

34 CFR 668.163

**Bank account requirements**

34 CFR 668.163(a)&amp;(b)

**Interest-bearing accounts**

34 CFR 668.163(c)

**Record keeping requirements**

34 CFR 668.24

**Not applicable to some programs**

The cash management requirements are not applicable to the state grant and scholarship programs. The Robert C. Byrd Honors Scholarship (Byrd) Program, and if a state is the grantee, the Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP) are administered under rules established by the state.

**Timely return of funds**

Schools are required to make a timely return of any unearned funds after a student withdraws, as discussed in *Volume 5*.

**Bank notification via UCC-1 form**

The requirement that a school file a UCC-1 statement when an account's name does not include the phrase *federal funds* was established to reduce the possibility that a school could misrepresent *federal funds* as its own funds to obtain a loan or secure credit. Because public institutions generally do not seek to obtain credit in the same manner as private institutions, they are exempt from the requirement.

**MAINTAINING AND ACCOUNTING FOR FUNDS**

All schools must maintain a bank account into which the Department transfers, or the school deposits, FSA funds. The account must be federally insured or secured by collateral of value reasonably equivalent to the amount of FSA funds in the account. A school generally is not required to maintain a separate account for each FSA program unless the Department imposes this requirement as a result of a program review or other action.

***When a school does not maintain a separate account***

A school has a fiduciary responsibility to segregate federal funds from all other funds and to ensure that federal funds are used only for the benefit of eligible students. Absent a separate bank account, the school must ensure that its accounting records clearly reflect that it segregates FSA funds. Under no circumstances may the school use federal funds for any other purpose, such as paying operating expenses, collateralizing or otherwise securing a loan, or earning interest or generating revenue in a manner that risks the loss of FSA funds or subjects FSA funds to liens or other attachments (such as would be the case with certain overnight investment arrangements or sweeps). Clearly, carrying out these fiduciary duties limits the ways the school can otherwise manage cash in an operating account when that account contains FSA funds.

If a school does not maintain a separate account for FSA program funds, its accounting and internal control systems must:

- identify the balance for each FSA program that is included in the school's bank or investment account as readily as if those funds were in a separate account; and
- identify earnings on FSA program funds in the school's bank or investment account.

A school must maintain its financial records in accordance with the record keeping requirements described in *Volume 2*.

***Bank account notification requirements***

For each account that contains FSA program funds, a school must identify that FSA funds are maintained in the account by:

- ♦ including the phrase *federal funds* in the name of the account; or
- ♦ notifying the bank or investment company of the accounts that contain FSA funds and keeping a copy of this notice in its records and, except for public institutions, filing a Uniform Commercial Code Form (UCC-1) statement with the appropriate state or municipal government entity that discloses that an account contains federal funds.

The school must keep a copy of the UCC-1 statement in its records.

## Interest-bearing or investment account

FSA funds must be maintained in an interest-bearing account or an investment account unless:

- the school drew down less than \$3 million of these funds in the prior award year and anticipates that it will not draw down more than \$3 million in the current award year;
- the school can demonstrate that it would not earn over \$250 in interest on the funds it will draw down during the award year.

An investment account must consist predominantly of low-risk income-producing securities such as obligations issued or guaranteed by the United States. If a school chooses to maintain federal funds in an investment account, the school must maintain sufficient liquidity in that account to make required disbursements to students.

Any interest earned on FSA funds maintained in an interest-bearing account or an investment account that exceeds \$250 per award year must be remitted to the Department by June 30 of that award year (see sidebar). A school may keep up to \$250 per year of the interest or investment revenue earned (other than that earned on Perkins Loan funds) to pay for the administrative expense of maintaining the account.

## Additional Perkins Loan requirements

A school that participates in the Perkins Loan Program must always maintain an interest-bearing account or an investment account for Perkins Loan funds. The school must maintain sufficient liquidity in its Perkins fund to make all required distributions.

If a school is also required to maintain an interest-bearing account or investment account for other federal funds, the school may use one account for Perkins Loan funds and all other federal funds. However, if the school chooses to maintain one account, it must determine the amount of any interest earned on the Perkins Loan funds and retain those funds for use in the Perkins program. The interest earned on the school's Perkins funds is not included in the \$250 maximum award year interest the school is permitted to retain.

A school may deduct from the interest earned any bank or service charges incurred as a result of maintaining the fund assets in an interest-bearing account and deposit only the net earnings.

If a collection agency or third-party servicer receives funds directly from Perkins borrowers, it must immediately deposit those funds in a school trust account. The agency or servicer may open and maintain the account, but the funds in it belong to the school. If the funds will be held for more than 45 days, the account must be interest bearing.

### Remitting Interest

The fastest, most efficient way to remit interest is through the G5 website at

**<http://www.g5.gov>**

A school with a user ID and password can go to the main menu and select “Refunds” then “Interest.” They will be taken to the screens through which they can send the Department interest.

To return interest via G5, you go to Payments > Refunds > Refunds Creation. Look to the bottom for the Miscellaneous section, type in the amount that needs to be returned, and choose Interest Earned from the Refund Type dropdown.

Schools can also return excess interest income to the Department by check. Send the check to:

**U.S. Department of Education  
P.O. Box 979053  
St. Louis, Missouri 63197-9000**

On the front of the check, the school should note its DUNS number and Document Award Number, and it should also indicate that the remittance is for interest earned.

### Perkins bank account requirements

34 CFR 674.19(a) & (b)



**Excess cash**

34 CFR 668.166

**Three-day rule for funds received under the advanced payment method**

A school must disburse FSA funds as soon as administratively feasible but no later than three business days following the date the school received those funds.

For funds received from the Department, the three-day period begins on the day the school receives the funds in the account designated by the school for that purpose. For funds deposited in the school's account (1) as part of the school's compliance with the requirement to return funds if a student withdraws before completing a period for which the student was paid, (2) for federal Pell Grant funds deposited because of adjustments and federal Direct Loan funds deposited because of adjustments or cancellations, and (3) for funds deposited because a student failed to begin attendance, the three-day period begins on the date the school deposits the funds in the school's federal account.

**Note:** A school must return or deposit funds for a student who withdraws before completing a period for which the student was paid within 45 days of determining the student withdrew. A school must return or deposit funds for a student who failed to begin attendance no later than 30 days after the date the school became aware the student will or has not begun attendance. Finally, a school must complete a report within 30 days of making adjustments to a student's Pell or Direct Loan award.

**If there's a finding, when the Department considers a check has been issued**

Generally, the Department considers a check to be issued when the school mails the check to the student or parent or notifies the student or parent that a check is available for immediate pickup. However, upon finding that a school has maintained excess cash balances, the Department considers the school to have issued a check on the date that check cleared the school's bank account, unless the school demonstrates to the satisfaction of the Department that it issued the check to the student shortly after the school wrote that check.

**EXCESS CASH**

As mentioned earlier, under the advanced payment method a school must disburse funds no later than three business days following the date the school receives them. The Department considers excess cash to be any amount of FSA funds, other than Perkins Loan funds, that a school does not disburse to students or parents by the end of the third business day following the date the school:

- ♦ received those funds from the Department; or
- ♦ deposited or transferred to its federal funds account previously disbursed FSA funds received from the Department, such as those resulting from award adjustments, recoveries, or cancellations.

Sometimes a school cannot disburse funds in the required three days because of circumstances outside the school's control. For example, a school may not have been able to disburse funds because of a change in a student's enrollment status, a student's failure to attend classes as scheduled, or a change in a student's award as a result of verification. In view of these circumstances, a school may maintain some excess cash for up to seven additional days.

**Allowable excess cash tolerances**

A school may retain for up to seven days an additional amount of excess cash that does not exceed one percent of the total amount of funds the school drew down in the prior award year. The school must return immediately to the Department any amount of excess cash over the one percent tolerance and any amount remaining in its account after the seven-day tolerance period.

The Department reviews schools to determine where excess cash balances have been improperly maintained. Upon a finding that a school has maintained an excess cash balance in excess of allowable tolerances, a school is required to reimburse the Department for the costs that the government incurred in making those excess funds available to the school.

Where excess cash balances are disproportionately large or where they represent a continuing problem with the school's ability to responsibly administer the FSA programs, the Department may initiate a proceeding to fine, limit, suspend, or terminate the school's participation in one or more of the FSA programs. For more on fines and other actions against schools, see *Volume 2*.

## ADMINISTRATIVE COST ALLOWANCE (ACA)

The ACA is an annual payment calculated by the Department and automatically deposited in the school's account to help offset the costs of administering the FSA programs. The Department reimburses schools participating in the Pell Grant Program \$5 per award year for unduplicated recipients at the school who receive a Pell Grant. For the Campus-Based Program, the ACA is taken from the school's federal allocation, and the maximum amount permissible is up to five percent of the sum of the loans advanced in Perkins, the total earned compensation in FWS, and the total awards to recipients in FSEOG.

For the Campus-Based programs, the ACA is not a separate allowance sent to the school. Rather, the school has the option of taking its Campus-Based ACA out of the annual authorizations the school receives for the FSEOG and FWS Programs and/or from the available cash on hand in its Perkins Loan fund. A school may draw its allowance from any combination of Campus-Based programs, or it may take the total allowance from only one program provided there are sufficient funds in that program and as long as the school has disbursed funds to students from that program during the award year.

A school must use its administrative costs allowance to offset its cost of administering the Pell Grant, FWS, FSEOG, and Federal Perkins Loan programs. Administrative costs may include the expenses incurred in carrying out a school's student consumer information requirements. In addition, a school may use up to 10 percent of its ACA that is attributable to the school's expenditures under the FWS Program to pay the administrative costs of conducting community service programs.

### Administrative Cost Allowance

34 CFR 690.10(b) and 34 CFR 673.7

#### Charging Perkins cost against ACA

If a school charges any ACA against its Perkins Loan fund, it must charge these costs during the same award year in which the expenditures for these costs were made.



## A SCHOOL'S FIDUCIARY RESPONSIBILITY

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### Cash management

34 CFR Subpart K

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### Purpose of regulations

34 CFR 668.161

Except for funds received by a school for administrative expenses and for funds used for the Job Location and Development Program, funds received by a school under the FSA programs are held in trust for the intended student beneficiaries. As a trustee of those funds, a school may not use (or use as collateral) FSA funds for any other purpose.

FSA funds are awarded to a student to pay current-year charges. Notwithstanding any authorization obtained by a school from a student or parent, the school must pay:

- ♦ any remaining balance from loan funds by the end of the loan period; and
- ♦ other remaining FSA funds by the end of the last payment period in the award year for which they were awarded.

**A school that fails to disburse funds by those dates is in violation of the Department's cash management regulations.**



In addition, a school has a fiduciary responsibility to:

- safeguard FSA funds;
- ensure FSA funds are used only for the purposes intended;
- act on the student's behalf to repay a student's FSA education loan debt when the school is unable to pay a credit balance directly to the student; and
- return to the Department any FSA funds that cannot be used as intended.

## GARNISHMENT OF FSA FUNDS IS PROHIBITED

No FSA grant, loan, or work assistance (or property traceable to that assistance) is subject to garnishment or attachment except to satisfy a debt owed to the Department.


A student's FWS wages may be garnished only to pay any costs of attendance that the student owes the school or that will become due and payable during the period of the award. Schools must oppose any garnishment order they receive for any other type of debt.

By law, FSA funds may only be used for educational purposes. If your school is not the employer in an off-campus employment arrangement, it must have an effective procedure to notify off-campus employers that garnishment of FWS wages for any debt other than a cost of attendance is not permissible.

## ESCHEATING OF FSA FUNDS IS PROHIBITED

A school must return to the Department any FSA program funds, except FWS Program funds, that it attempts to disburse directly to a student or parent if the student or parent does not receive the funds or cash the check. (For FWS Program funds, a school is required to return only the federal portion of the payroll disbursement.)

A school must have a process that ensures FSA funds never escheat to a state or revert to the school or any other third party. A failure to have such a process in place would call into question a school's administrative capability, its fiscal responsibility, and its system of internal controls required under the FSA regulations.



In order to prevent the escheating of Title IV funds, the Department encourages schools that disburse Title IV credit balances by EFT to remind students before the end of the award year (or at the time of withdrawal for students who cease attendance before completing the period for which the funds were paid) to examine the balances remaining in any accounts to which Title IV funds were transferred.

### Garnishment/attachment prohibited

HEA 488A(d)

#### Example of a policy to prevent escheating

Typically, each state establishes the useful life of a check or bank draft used to disburse FSA program funds. After this established date, the check cannot be negotiated and the proceeds of an uncashed check normally escheat to an unintended third party (the state or the institution).

In state A, a bank check has a useful life of 180 days. In order to prevent FSA funds from escheating to a third party, the Business office at School A, at the end of each month, identifies all outstanding uncashed checks containing FSA funds. Prior to the 180th day, the Business office voids the uncashed checks and restores the funds back to the applicable FSA program.

### Time frame for returning unclaimed funds

34 CFR 668.164(h)

#### Undelivered Perkins funds

If a portion of the undelivered credit balance consists of Perkins funds, the school must reimburse its Perkins Loan fund for that amount and report those funds as other income in Part III, Section A of the FISAP.

#### Unpaid FWS wages

If a school cannot locate a student to whom it owes FWS funds the student has earned, the federal portion must be returned to the school's FWS account.

If the student comes back or the school later locates the student, the school can recover the FWS funds as long as the account for that year is still open. If the account is closed, the school must pay the student (under the wage and hour laws) using its own funds.

